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BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE, Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	Docket No. E-01345A-16-0036
IN THE MATTER OF FUEL AND PURCHASED POWER PROCUREMENT AUDITS FOR ARIZONA PUBLIC SERVICE COMPANY.	Docket No. E-01345A-16-0123 **REPLY BRIEF OF THE SOUTHWEST ENERGY EFFICIENCY PROJECT (SWEEP)**

Reply Brief of SWEEP

Docket Nos. E-01345A-16-0036 and E-01345A-16-0123

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I. INTRODUCTION

SWEEP replies to the initial briefs of APS and Staff herein.

II. THE LARGE INCREASES IN THE BASIC SERVICE CHARGES FOR RESIDENTIAL, EXTRA SMALL, AND SMALL GENERAL SERVICE CUSTOMERS ARE NOT IN THE PUBLIC INTEREST AND SHOULD NOT BE APPROVED. THE COMMISSION SHOULD MODIFY THE BASIC SERVICE CHARGES TO ENSURE JUST, FAIR, AND REASONABLE RATES.

APS questioned the SWEEP testimony and BSC calculations in its brief, (APS Brief, pages 57 and 64), including asserting that SWEEP did not include some customer costs.

Mr. Schlegel testified that the BSCs should be based on the Basic Service Method (also known as the Basic Customer Method). This method includes only those costs that vary based on the number of customers associated with meters, meter reading, billing, and "customer service" (the cost of customer installation).[1] (SWEEP-4, p. 7.)

In its BSC calculations, SWEEP used the same customer cost categories for the Basic Service Method that Professor Bonbright,[2] who APS witness Snook also cited, recommended. (Snook Rebuttal, p. 5, lines 2-7.) Consistent with the Basic Service Method and Professor Bonbright's list of customer costs that should be included in the BSC, SWEEP included only those costs that "vary with the number of customers" and the costs of "taking

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[1] In this case, "customer service" refers to the cost of customer installation in FERC accounts 369 and 587.

[2] Bonbright, James C. 1961. *Principles of Public Utility Rates.* Columbia University Press. p. 347-349.

on another customer." Specifically, SWEEP included the costs of meters, meter reading, billing, and customer service. (SWEEP-3, p. 5.)[3]

In his oral rejoinder testimony, Mr. Schlegel documented the customer costs that are included in the SWEEP BSC calculations for SWEEP-4 Attachment JAS-1SR, based on the FERC accounts and account numbers used by SWEEP that are fully consistent with the Uniform System of Accounts Prescribed for Public Utilities, as published in the Code of Federal regulations (SWEEP-5). (TR 1125:5 - 1128:13 (Schlegel Test.)) In its calculation of the BSCs, SWEEP summed the customer costs contained in each of the FERC accounts for meters, meter reading, billing, and customer services (including the customer service drop under "services" as set forth in the Uniform System of Accounts), and including costs for the appropriate accounts for plant and expenses. (TR 1126:25 - 1128:3 (Schlegel Test.) The end result of the SWEEP analysis is an objective and evidence-based, bottom-up summation of the appropriate customer costs as the basis for the BSCs. (TR 1128:4-13 (Schlegel Test.))

Therefore, the SWEEP BSC calculations are based on customer costs, using the correct method and the correct customer-related costs – i.e., the costs of meters, meter reading, billing, and customer service (and including the customer service drop) – and using the dollar amounts in APS accounts consistent with the FERC accounts and the standard federal system of accounting for utility costs. (TR 1124:4 - 1128:3 (Schlegel Test.))

APS did not cross-examine Mr. Schlegel during the hearing on his analysis, calculations, and customer costs included when APS had the opportunity to do so.

In contrast, APS included some distribution costs and some costs that are not customer-related in its BSC calculations. (APS 32; SWEEP-3, p. 6.) Also, Miessner noted

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[3] SWEEP also calculated a BSC of $12 per month for extra small and small general service customers in SWEEP-4, p. 7-9.

that the purpose of the BSC for some parties was to reflect the "fixed costs" of service. (TR 341:23-25 (Miessner Test.)) The larger category of "fixed costs" should not be included in "customer costs" or as costs that "vary with the number of customers" used to determine the BSC. (TR 1122:20 - 1123:10 (Schlegel Test.)) Finally, as acknowledged by APS, the BSCs are not cost-based or cost-justified because they are settlement values that "were derived through compromise." (Miessner Rebuttal, p. 7, line 22.)

Therefore, the Settlement-proposed increases in the BSCs for residential, extra small general service, and small general service customers are not cost-based or cost-justified. Only the SWEEP-proposed BSCs for these customers are cost-justified.

Much of the rate increase for some customers is in the BSC, as a fixed charge. Customers first receive a significant rate increase, and then experience all or most of the increase as an increase in the fixed charge, with no ability to control that (now larger) portion of their bill – which is a double whammy for customers. (SWEEP-4, p. 10, line 41 to p. 11, line 2.) The increases in the BSCs result in customers having less control over their utility bills and less opportunity to mitigate the effects of the rate increase. (SWEEP-4, p. 10, lines 42-43.) The analysis in SWEEP-6 shows that the Settlement-proposed BSC increases can comprise 40%-150% or more of the total bill increase, thereby leaving a customer with a large fixed charge increase and no meaningful opportunity to mitigate the effect of the bill increase. (SWEEP-6 corrected.)

Customers are not all typical or average customers. If the Settlement Agreement is adopted as proposed, there will be significant bill increases and different bill impacts for many customers. Too much of overall increase is in the fixed charge, which reduces the customer's control over more of their bill, and reduces the opportunity for the customer to mitigate the effect of that sizeable portion of the rate increase. And which results in unfair and unreasonable bill impacts. It is crucial for the Commission to examine and consider the range of significant bill impacts on real customers in its review of the Settlement Agreement. (TR 1121:12-19 (Schlegel Test.))

For TEP, the Commission approved BSCs of $10 for TOU and demand rates, and $13 for the basic rate, which are lower than the proposed BSCs in the APS Settlement Agreement ($13 for TOU and demand rates, and $15 or $20 for the R-Basic or R-Basic Large rates). There remains the reasonable question of why APS customers should be required to pay higher BSCs and higher fixed charges than TEP customers. (TR 1178:18-22 (Schlegel Test.)) TEP is the appropriate point of comparison for Commission consideration.

III. THE RESIDENTIAL TOU RATES SHOULD HAVE A SHORTER ON-PEAK PERIOD THAT IS CUSTOMER-FRIENDLY AND EFFECTIVE

The Commission should modify the Settlement Agreement by setting the on-peak period to three hours, from 4:00 pm to 7:00 pm. This time period would be more attractive to customers and more customers would be able to work with and manage their energy usage during the peak periods – thereby resulting in less peak demand, a more effective rate design overall, and more customers who are willing to work with APS to manage their demand and energy use. (SWEEP-4, p. 12.)

Despite what APS asserts (APS Brief, p. 59-60), the APS peak load shape figure (Miessner Rebuttal, Figure 1, p. 10) confirms that the three summer hours with the highest peak demand are 4:00 PM to 7:00 PM. Specifically, the load shape curve from 4:00 PM - 7:00 PM is the system peak and is on the 100% line, meaning the red line overlaps 100%; the demand for 3:00 PM and after 7:00 PM are both below the 100% line. (TR 1137:4-14

(Schlegel Test.)) Therefore, customers could shift some of their demand to hours before 4:00 PM and not increase the APS system peak demand between 4:00 PM and 7:00 PM. The shorter on-peak period would be attractive to more customers, and additional customers would move to TOU rates. (TR 1138:5-17 (Schlegel Test.))

The Commission should not set the on-peak period for 2020 or future years in this rate case; that decision could be made and is more appropriately made in the next rate case with the then-current facts available for consideration.

IV. THE 90-DAY WAITING PERIOD SHOULD BE ELIMINATED; IT IS AN UNWARRANTED RESTRICTION ON CUSTOMER CHOICE AND CUSTOMER RATE OPTIONS

The Commission should modify the Settlement Agreement to eliminate all restrictions on customer choice and customer options, including the 90-day waiting period. All customers should be able to choose their rate from among the options they are eligible for, and they should be able to do so on their first day as an APS customer. (SWEEP-4, p. 12.)

At page 57 of its brief, regarding the 90 day trial period, APS says that the data show that a significant majority of APS customers will save money on the new rates. If that is true, then customers will choose the rates that save them the most money. APS has been successful in marketing its time-sensitive rates in the past, and there is no reason to believe this will be any different – especially since there are new incentives for customers to move to time-of-use rates including the lower basic service charge, and a shorter peak period than the current TOU rate. There is no justification for a 90-day waiting period.

If the 90-day waiting period is retained, the Commission in its order should require that APS notify customers of all rates available to the customer at the end of the 90-day period. Available rate options should be disclosed to all eligible customers, as recommended by AARP.

V. THE DSM UNSPENT FUNDING ISSUE AND ANY POTENTIAL REFUND SHOULD BE ADDRESSED IN THE DSM IMPLEMENTATION PLAN PROCEEDING, CONSISTENT WITH PRIOR COMMISSION DIRECTION AND WITH ADEQUATE AND APPROPRIATE DUE PROCESS

APS is correct that the Commission has not decided how the $15 million in unspent DSM funds should be used going forward. (APS Brief, p. 56, lines 3-4.) However, APS ignores the fact that the Commission has approved using the DSM unspent funding in the two prior DSM program years, 2015 and 2016, in order to provide adequate and stable funding for DSM when APS was facing funding shortfalls through the DSMAC, and to not increase the DSMAC. These uses of the DSM unspent funding for the 2015 and 2016 DSM Plans were fully consistent with what APS proposed, and the Commission approved this use of the DSM unspent funding for these two years in a row, including most recently in Decision No. 75679. (SWEEP-4, p. 13.)[4] (TR 1141:11 -1142:23 (Schlegel Test.))

APS is ignoring the very real situation, once again, of the DSM funding shortfall the APS DSM programs are facing in 2017, and the fact that the DSM unspent funds may be needed and could be used to provide adequate and stable funding for DSM programs in 2017, in a situation similar to and in a manner consistent with the Commission-approved use of the

[4] The DSM unspent funding has also supported Commissioner-identified DSM initiatives, including a $2 million pilot program for schools in Decision No. 75323, and a $4 million energy storage requirement and increased demand reductions goals established for APS in Decision No. 75679. (SWEEP-4, p. 13.)

DSM unspent funding in 2015 and 2016. In fact, in April 2017, APS reduced custom incentive levels for its commercial and industrial customers by 45%, and cut the incentives for customer studies by 50%, because it has insufficient DSM funds to meet customer interest in the programs, as described by APS and cited by SWEEP. (SWEEP-4, p. 13-14.) APS could use some of the DSM unspent funding to make up the difference, as APS did in 2015 and 2016, with Commission approval in both years. (SWEEP-4, p. 13-14.) (TR 1141:11 -1142:23 (Schlegel Test.))

SWEEP is not asking the Commission to authorize such use of the unspent DSM funding for 2017 in this APS rate case proceeding. But SWEEP is arguing that the opportunity for the Commission to make such a decision in 2017, for the third year in a row based on a similar set of circumstances, and consistent with APS' prior proposals, should be preserved for Commission consideration and action in the 2017 DSM Implementation Plan proceeding. This procedural opportunity, which follows Commission direction, and is consistent with prior Commission orders on the 2015 and 2016 DSM Plans, should not be precluded through the Settlement Agreement.

Staff states SWEEP acknowledges that the funds in question are not funding any current programs that would be "terminated" as a result of the refund of this money. (Staff Brief, p. 24, lines 14-16.) The "termination" of a program is not the sole metric or decision point of whether the unspent DSM funds would be valuable to meet the customer interest in the 2017 DSM programs, which are a cost-effective use of ratepayer funding. Short of "termination" of an entire program, the unspent funds could be used to address the 2017 DSM funding shortfall that APS has acknowledged and has reacted to by reducing spending in cost-effective energy efficiency programs and slashing the incentives to customers.

(SWEEP-4, p. 13-14.)

APS states "using these funds to mitigate the rate increase does not impact existing DSM programs or customers." (APS Brief, p. 56, lines 8-9). In fact, customers are being disadvantaged by the funding shortfall in DSM programs in 2017. And the unspent DSM funding could be used in 2017, just as the Commission ordered for 2015 and 2016, to reduce these negative impacts on customers and on cost-effective customer projects. (SWEEP-4, p. 13-14.)

APS notes that the Commission has the ability to modify the level of the DSMAC to collect sufficient funds to accomplish the Commission's priorities. (APS Brief, p. 56, lines 11-13.) APS neglects to mention that when faced with similar DSM funding shortfall situations in 2015 and 2016, the Commission, consistent with APS' proposal in each year, decided to use a portion of the DSM unspent funds to meet the DSM funding needs both times, rather than increasing the DSM surcharge. SWEEP recommends that the Commission retain this option for consideration in the 2017 DSM Implementation Plan proceeding.

While APS cites Decision No. 75323 in its brief (APS Brief, p. 56, lines 5-7), APS neglects to mention the Commission order in that Decision that directed the DSM unspent funding issue be addressed in the DSM Implementation Plan proceeding. This is a clear direction of the Commission.

No party argued that the Commission had not previously ordered the DSM unspent funding issue be addressed in the DSM Implementation Plan proceeding. The prior direction of the Commission in Decision No. 75323 is clear and unambiguous. Further, no party stated that the Commission could not consider and act on the DSM unspent funding issue in the DSM Implementation Plan proceeding – because it is abundantly clear the Commission has such authority, and the Commission has previously directed that the DSM unspent funds issue be addressed in the DSM proceeding.

Regarding the due process issue, the Commission should address the DSM unspent funds issue in the DSM Implementation Plan proceeding, as the Commission directed previously and as SWEEP recommends, so that Commission action on this issue would be properly noticed to customers and stakeholders (the DSM budget and funding issues are fully noticed in the DSM Plan proceeding), ensure appropriate due process, with customers and stakeholders having an opportunity to participate and comment on a DSM issue in the DSM Plan proceeding, and be directly relevant to the scope and focus of that DSM proceeding – on DSM matters – which include DSM budgets and DSM funding. (TR 1143:9 -1144:10 (Schlegel Test.))

APS argues that refunding the DSM unspent funds now "would provide a degree of gradualism for any rate increase ordered in this matter." (APS Brief, p. 56, lines 1-2.) In SWEEP's view, the magnitude of this rate increase (4.54% for the residential class) really does not require "gradualism." SWEEP has not opposed the revenue requirements nor the size of the rate increase. Also, the Commission should consider the timing and impacts regarding how rates would be changing in 2018 with the $15 million refund no longer affecting customer bills at about the same time customers are transitioning to the new rates.

SWEEP continues to recommend that the DSM unspent funding issue be addressed in the DSM Implementation Plan proceeding, as recently directed by the Commission in Decision No. 75323, and should not be refunded in the APS rate case.

VI. CONCLUSION

SWEEP recommends the Commission modify the proposed Settlement Agreement in the manner described by SWEEP, in order for any Commission-approved Settlement Agreement to be in the public interest, and in order for the Agreement to result in just, fair, and reasonable rates.

DATED June 1, 2017

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